

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04  
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 PA-02 PRS-01 /108 W  
-----291436Z 025170 /50

R 291200Z MAR 77  
FM AMEMBASSY BERN  
TO SECSTATE WASHDC 4120  
INFO AMEMBASSY BONN  
USMISSION EC BRUSSELS  
USMISSION GENEVA  
USDEL MTN GENEVA  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
USMISSION OECD PARIS  
AMCONSUL ZURICH

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PASS TREASURY AND FRB

EO 11652: N/A  
TAGS: EFIN, ECON, SZ  
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF MARCH 20-26

1. SUMMARY: HECTIC FOREIGN EXCHANGE MARKET,  
UNDER INFLUENCE FROM BANKS' MONT-END LIQUIDITY  
REQUIREMENTS, SAW DOLLAR RATE AGAINST SWISS  
FRANC SLIP TO SF 2.53 BEFORE CLOSING FRIDAY  
AT SF 2.54. GOLD PRICE ROSE FURTHER TO 153.  
SWISS BELIEVE GOLD PRICE MAY REMAIN  
MODERATELY STABLE OVER MEDIUM TERM, BUT  
SOME OBSERVERS BELIEVE INFLATIONARY FEARS  
AND SPECULATION COULD PUSH PRICE TO 200.  
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SWISS NATIONAL BANK POLICY AIMS AT CLOSER  
CONTROL OVER MONEY SUPPLY BY USING  
DIFFERENT LIQUIDITY TOOLS. SNB MADE  
ADDITIONAL NEW SWAPS TO HELP BANKS' MONTH-  
END LIQUIDITY PROBLEMS. CONTINUED CAPITAL  
MARKET LIQUIDITY AND INTEREST RATE STABILITY  
IS PREDICTED FOR 1977. EXPORT FINANCING

FACILITIES FOR WATCH, CLOTHING, AND SHOE  
INDUSTRIES WERE EXTENDED TO END OCT.  
NEW SF 500 BILL WILL APPEAR IN APRIL.  
END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: MARKET WAS  
HECTIC, REFLECTING CONTINUED SQUEEZE ON  
SHORT TERM SWISS FRANCS AS BANKS WORRIED  
ABOUT MONTH-END LIQUIDITY PROBLEMS. DOLLAR  
RATE AGAINST FRANC SLIPPED TO SF 2.53  
WEDNESDAY, WHILE ONE MONTH FORWARD DISCOUNT  
RATE DROPPED TO 0.57 PERCENT TUESDAY.  
PRESSURE EASED SLIGHTLY AND RATES RECOVERED  
AFTER SWISS NATIONAL BANK CONCLUDED LIMITED  
NEW SWAPS WITH BANKS. DEALERS NOTED THAT  
GOLD PRICE RISE HAS TAKEN SPECULATIVE TURN WHICH  
MAKES MARKET MORE VULNERABLE. SOVIETS  
REPORTEDLY HAVE RESUMED GOLD SALES, BUT  
IN MODERATE AMOUNTS. RATES FOLLOW:

ITEM - 3/21 (OPEN) - 3/25 (CLOSE)  
SPOT DOLLAR - 2.5460 - 2.5492  
FORWARD DISCOUNTS (PCT P A)  
ONE MONTH - 1.27 - 1.93  
2 MONTHS 1 1.51 - 2.05  
3 MONTHS - 1.60 - 1.99  
6 MONTHS - 1.94 - 1.98  
12 MONTHS - 2.40 - 2.54  
SF/DM - 106.57 - 106.55  
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GOLD - 151 - 153.50

3. GOLD PRICE: SWISS SPECULATED THAT GOLD  
PRICE MIGHT REACH 200 AFTER PAUSE AT 160. ONE  
ZURICH DEALER BELIEVES PRICE WILL REMAIN  
STABLE FOR SOME TIME, PERHAPS IN RANGE OF  
145 TO 165, VIEW SOME INDUSTRIAL USERS SHARE.  
OTHERS PREDICTED PRICE RANGE OF 150 TO 170 BY  
END 1977. HOWEVER, EXPERTS NOTED THAT US  
POLICY DECISION WHETHER OR NOT TO SELL OFFICIAL  
GOLD WILL BE KEY FACTOR DETERMINING PRICE.  
THOUGH INCREASED INDUSTRIAL USE WAS LEADING  
FACTOR IN PRICE INCREASE DURING LATE 1976,  
PRIVATE PURCHASES AS HEDGE AGAINST POLITICAL  
AND ECONOMIC UNCERTAINTIES HAS INCREASED.  
INDUSTRY IS EXPECTED TO USE 1200 TONS OF  
GOLD THIS YEAR, OF WHICH 950 TONS WILL BE FOR  
JEWELRY. THOUGH INDUSTRIAL USES MIGHT DECLINE  
AS GOLD PRICE RISES, AND THEREBY LIMIT PRICE

INCREASE, OBSERVES BELIEVE IT IS NOT UNLIKELY  
THAT SPECULATION AND FEARS OF INFLATION  
COULD PUSH PRICE TO 200.

4. SNB POLICY: SNB EXPLAINED THAT CURRENT  
POLICY AIMS AT CLOSER CONTROL OF MONEY  
SUPPLY BY REPLACING TEMPORARY LIQUIDITIES,  
PROVIDED THROUGH FOREIGN EXCHANGE PRUCHASES,  
WITH MORE PERMANENT LIQUIDITY. SNB HAS TAKEN  
FOLLOWING MEASURES IN THIS DIRECTION: A) FREED  
MINIMUM RESERVES ON FOREIGN LIABILITIES HELD  
BY BANKS; B) NOT EXTENDED STERILIZATION  
ORDERS WHICH REDUCE BANK LIQUIDITY; AND C)  
INTERVENED ON BOND MARKET TO STABILIZE  
INTEREST RATES. SNB WILL CONTINUE MAKE  
LIMITED SHORT TERM SWAPS WITH BANKS BECAUSE  
UP TO NOW IT HAS BEEN UNABLE TRANSFORM  
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LIQUIDITY INTO MORE PERMANENT NATURE TO  
EXTENT DESIRED.

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5. CAPITAL AND MONEY MARKETS: BANKS WERE CONCERNED THAT THEIR END OF MARCH LIQUIDITY POSITIONS WILL BE TIGHT DUE TO MORE RESTRICTIVE SNB POLICY. NEW MONTH-END SWAPS HAVE BEEN LIMITED TO \$300 TO \$350 MILLION EACH FOR THREE LARGEST BANKS. HOWEVER, SNB FOREIGN EXCHANGE HOLDINGS ON MARCH 24 WERE UPNEARLY SF 1.2 BILLION FROM PREVIOUS WEEK DUE TO SWAPS AND FOREIGN EXCHANGE INTERVENTIONS ON BEHALF OF BANKS, OFFSET BY CAPITAL EXPORT CONVERSION SALES. GIRO CLEARING ACCOUNTS ROSE SF 932 MILLION AND OTHER SNB CREDITS TO BANKS WERE UP SF 22.2 MILLION. ROOSA BOND HOLDINGS DECREASED SF 44 MILLION. CALL MONEY RATE REMAINED 2 PERCENT. STOCK PRICES IMPROVED  
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SLIGHTLY: SKA INDEX (1959 EQUALS 100) 226.4  
MARCH 25. AVERAGE YIELD CONFEDERATION BONDS  
SLIPPED TO 3.96.

6. CAPITAL MARKET 1977 FORECAST: UNION BANK OF SWITZERLAND PREDICTED PRIVATE SAVING WILL REMAIN HIGH AND INSTITUTIONAL INVESTORS WILL PLACE LARGEST PART THEIR FUNDS ON MONEY MARKET AND IN FIXED INCOME BONDS IN 1977. THEREFORE MARKET WILL REMAIN HIGHLY LIQUID BECAUSE CREDIT DEMAND WILL NOT GREATLY INCREASE AND GOVT FINANCIAL NEEDS SHOULD REMAIN STABLE. RELATIVELY LIBERAL SNB MONETARY POLICY SHOULD CAUSE INTEREST RATES TO STABILIZE AT PRESENT LEVELS. HOWEVER, INTEREST RATE DIFFERENTIAL BETWEEN FIRST CLASS BORROWERS AND OTHERS MIGHT INCREASE. INTEREST RATES COULD RISE FOR INDUSTRIAL AND NUCLEAR POWER PLANT BORROWERS, AS WELL AS FOR FOREIGN BORROWERS, BECAUSE OF INCREASING INVESTOR SELECTIVITY. SWISS DOMESTIC BORROWINGS APPEAR TO BE DECLINING. INVESTMENT RETURNS ARE DECLINING BECAUSE OF LOWER INFLATION RATE.

7. EXPORT ASSISTANCE: BANKS HAVE AGREED TO  
EXTEND TO END OCT 1977 POLICY TO DISCOUNT

FOREIGN EXCHANGE ORDERS FOR WATCH, TEXTILE,  
AND SHOE INDUSTRIES' EXPORTS AT 2 TO 2.5 PERCENT  
WHICH SNB WILL RE-DISCOUNT AT MAXIMUM ONE  
PERCENT.

8. CURRENCY: SNB WILL ISSUE NEW SF 500 BILL  
ON APRIL 4, 1977. NEW BILL WILL BE IN SMALLER  
FORMAT SIMILAR TO SF100 NOTE ISSUED IN  
1976.

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9. GOVT FINANCIAL PLAN: LOWER HOUSE  
OF PARLIAMENT APPROVED FEDERAL FINANCIAL  
PACKAGE AIMING AT BALANCED BUDGET BY 1979.  
ALL PARTIES EXCEPT PARTI DU TRAVAIL  
(COMMUNIST) APPROVED; PDT CALLED FOR CUTBACK  
IN DEFENSE SPENDING.  
DAVIS

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009